Tab 7

AWP (Ain't What's Paid)

Origin

Before the 1980's, there were many pharmaceutical companies, who sold to many wholesalers and many retailers. Since the wholesalers were regional in nature, it was difficult to ascertain the "average" price manufacturers sold product for. Most manufacturers sold through wholesalers only, but some did sell direct to retailers. The price manufacturers sold product to wholesalers for was termed Wholesale List Price or "WLP". On average, wholesalers marked WLP up 20% from manufacturers selling product to wholesalers only, when selling product to retail pharmacies. Wholesalers marked-up product 25% from manufacturers who also had direct pharmacy sales. As an example, Bristol-Myers did not deal in direct sales, hence had a 20% markup, while Squibb's direct policy caused a 25% markup, also known as "WLP to AWP spread".

A pricing service, FirstDataBank, found a market niche in surveying wholesalers and retailers for the average price wholesalers sold product to pharmacies for, hence "Average Wholesale Price." They published this information in such sources a Redbook and PriceAlert.

Over the past 20 years, much consolidation has occurred within the pharmaceutical wholesale and retail supply chain. Now, major wholesalers and pharmacy chains are able to negotiate much better pricing from each other, as well as from manufacturers. Wholesalers and retailers now work on slim margins and mark-ups from WLP are in the 2% - 4% range. But, FirstDatabank has maintained the 20% - 25% AWP markup legacy and continues to publish this artificially inflated number. This markup is applied to new and old products based on the manufacturer asigned to the product labeller code.

Current Usage

While pharmacies and payors both know that AWP is artificially inflated, it is the only easily obtained, published price source. Therefore, reimbursement formulas are still based on AWP, with a discount subtracted from it. An example of how a MCO reimburses a pharmacy might be: AWP – 13% + a filling fee of $2 less the co-pay that has already been paid by the customer when picking up the prescription. In simple terms:

AWP – discount +fee – copay

The discount level depends on the payor type and the contract entered into by payor and pharmacy.

In addition, pharmacies often use AWP as a benchmark when determining how much to charge a cash paying customer for a prescription.

Aside from pharmaceutical distribution channels, AWP is used by many when providing analysis on drug pricing. Many newspaper articles and invest bank research notes use AWP as a tracking variable. Since it is a published number, AWP is the logical variable to track when performin price increase analysis, as so many publications and advocacy groups do.